

Economics
Standard level
Paper 1

Monday 2 May 2016 (afternoon)

1 hour 30 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to examples where appropriate.
- The maximum mark for this examination paper is **[50 marks]**.

Section A

Answer **one** question from this section.

Microeconomics

1. (a) Distinguish between the effect of an increase in income and an increase in the price of a good on the demand for the good. [10]
- (b) Discuss the significance of price elasticity of demand for firms that produce luxury cars and firms that produce less expensive cars. [15]
2. (a) Explain **one** supply factor and **one** demand factor that might lead to a rise in the price of rented housing. [10]
- (b) Discuss the view that price controls imposed by governments on the market for rented housing should never be used. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain how an increase in interest rates might affect the level of aggregate demand in an economy. [10]
- (b) Evaluate the effectiveness of monetary policy when an economy is in deep recession. [15]
4. (a) Using the Keynesian AD/AS diagram, explain why an economy may be in equilibrium at any level of real output. [10]
- (b) Evaluate the view that increased investment is the most important factor in achieving a faster rate of economic growth. [15]
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